

COMMISSION of the EUROPEAN COMMUNITIES



**Relations with Central & Eastern
European countries
and Independant States (C.I.S.)**

Summit of industrialised countries - Munich 1992

**European Community relations
with Central & Eastern European countries
and the countries of
the Commonwealth of Independent States**

I. Community relations with the Central and Eastern European Countries

1. Agreements

a. The joint EEC/COMECON* Declaration of 25 June 1988 marked the start of a new era in trade and political relations with the countries of Central and Eastern Europe. Diplomatic relations were established and permanent missions were sent from each of these countries to the Community. Negotiations for bilateral treaties were also initiated.

b. Trade and cooperation agreements were concluded between October 1988 and March 1991 with all the Central and East European countries. They are to last ten years except in the case of Poland where it is five years.

(More information on the trade and cooperation agreements in annex 1).

c. Prior to the trade and cooperation agreements, sectoral trade arrangements had been signed between the former COMECON countries and the Community concerning textiles, steel and beef.

d. In November 1991 Europe or Association agreements between the EC and Poland, Hungary and CSFR** were finalised, and signed in December. They have to be approved by the European Parliament and the national parliaments of the Twelve and of Poland, Hungary and CSFR, before entering into force on January 1, 1993.

Interim agreements covering the trade and related questions of the Association agreements have also been signed; these do not require ratification by the Twelve parliaments and therefore became effective on March 1, 1992.

(More information on the Europe agreements in annex 2).

Negotiations for similar Europe Agreements with Bulgaria and Romania started in spring 1992.

2. Assistance

a. In order to improve market access, the Community decided in 1989 to grant GSP (generalized system of trade preferences) treatment to imports from Poland and Hungary; and to eliminate or suspend quantitative trade restrictions as of 1 January 1990, in all Member States except in Spain and Portugal. These measures were later extended to imports from Czechoslovakia, Bulgaria and Romania; Albania and the Baltic States began to benefit from this scheme in 1992.

* Council for Mutual Economic Assistance, dissolved early 1991

** Czech and Slovak Federal Republic

b. The Community's PHARE programme is aimed at supporting the process of economic restructuring and encouraging the changes necessary to build a market-oriented economy and to promote private enterprise. The support is mainly in the form of technical assistance and skills transfer. In addition humanitarian emergency aid has been made available to some countries. The high priority sectors include agriculture, industry, energy, financial services, privatisation, investment promotion, environment protection, and training. The Commission's PHARE budget was 500 MECU(1)

(2). Albania and the Baltic States became eligible for PHARE assistance in January 1992, which brings the total number of beneficiaries to 10.

c. Community loans targeted at helping the countries of Central and Eastern Europe overcome their balance of payment difficulties amount to 2090 MECU. The Community contribution is roughly equal to the sum of the contributions from the remaining G-24(3)

d. The Community's European Investment Bank (EIB) has extended its investment activities to Poland, Hungary, CSFR, Romania and Bulgaria. The Community guarantees these loans. For the period ending December 1992, the EIB has earmarked a total amount of 1,700 MECU for loans to these five countries.

e. The European Coal and Steel Community (ECSC) is contributing to the restructuring of the steel and coal industries in Central and Eastern Europe via trade and cooperation agreements and by way of loans. It has earmarked a total of 200 MECU for loans to support the restructuring of the coal and steel sectors in Central and Eastern European countries.

f The European Bank for Reconstruction and Development (EBRD), under G-24 aegis, officially opened on 15th April 1991. The Community contributes to the capital of the EBRD, and holds a 51% share. It started its activities in September 1991. End 1991, it had approved projects for a total amount of 427 MECU and committed 13 MECU in the framework of the technical assistance.

g. The Commission coordinates the assistance offered to the countries of Central and Eastern Europe by all 24 industrialised market economy countries, the G-24. Working groups have been set up amongst the G-24 representatives to deal with the coordination of financial and technical assistance in specific sectors.

The Community's European Investment Bank (EIB) has extended its investment

(1) MECU: one million ECU

(3) 24 industrialised market economy countries

See chapter "Yugoslavia"

3. Trade

a. Both imports from and exports to the five Central and Eastern European countries (Poland, CSFR, Hungary, Romania, Bulgaria) increased considerably during the first nine months of 1991: 23 and 52% respectively. They represent 4,1% of EC exports and 3,3% of EC imports. The trade balance which used to be in favour of the Central and Eastern European countries is turning to the Community's advantage (about 1 billion ECU for the period January-September 1991). This marked change is mainly due to the doubling of Community exports to Poland.

b. The Community's main imports from East European countries consisted in 1990 of: agricultural products including processed agricultural products: 17%; base metals and articles of base metals: 15% ; textiles and textile products: 14%; and mineral products: 11%.

c. The Community's principal exports to East Europe in 1990 were machinery and electrical equipment: 32%; chemical products: 12%; textiles and textile products: 11%; and agricultural products, including processed products: 10%. More than half of these textile exports are reimported into the Community after undergoing processing in Central and East European Countries.

II. Situation by countries

POLAND

1. Agreements

a. A five-year trade and economic cooperation agreement was signed on 19 September 1989. It entered into force on 1 December 1989. This non-preferential agreement which includes the clause of reciprocal MFN (Most Favoured Nation) treatment, foresees the gradual liberalization by 1994 of quantitative restrictions applied by the Community on imports originating from Poland. However, in the framework of PHARE, the Community decided to speed up the process and agreed to suspend non-specific and liberate all specific quantitative restrictions as of 1 January 1990 in all Member States except Spain and Portugal. Moreover, the agreement provides for cooperation aimed at the development and diversification of EC/Polish two-way trade.

The ECSC (European Coal and Steel Community) protocol relating to trade and cooperation in coal and steel products was signed in October 1991.

b. The Europe Agreement between the Community and Poland was signed on 16 December 1991 and is in the process of ratification. In the meantime, the trade aspects have entered into force on March 1, 1992, by way of an Interim Agreement. The Europe Agreement will replace the trade and economic cooperation agreement of 1989.

c. A Delegation from the Community was opened in Warsaw on 21 September 1990. The Head of Delegation is Mr Dijckmeester.

2. Assistance

a. In the two years 1990 and 1991, some 27 projects representing a total amount of about 380 MECU from the Commission's PHARE programme was approved in favour of Poland. These projects which are mainly in support of the economic restructuring benefit i.a. the environment, agriculture, industrial, financial, social and health sectors, as well as the development of small and medium sized enterprises and human resources. On 3 June 1992, the Indicative Programme for European Community Assistance to the Republic of Poland for 1992 (PHARE 1992), involving 200 million ECU (1 ECU = appr. 17.000 Zlotys) in grants, was signed in Warsaw. Whereas in 1990 the priority sector was rapid assistance to agriculture (by supplying plant protection chemicals and animal feed), in 1991 privatisation and economic reform were the central areas. Economic reform is also a key area for attention in the 1992 programme, with special attention for the structural development in selected, less-developed regions. Environment has been a priority area in all three Indicative Programmes signed so far, having received approximately 13% of the resources which were available over the last three years. Poland also benefits from PHARE programmes destined for several Central European countries.

b. So far, Poland received five EIB loans for a total value of 240 MECU. The beneficiary sectors include railways, telecommunications, energy and small and medium sized enterprises.

c. In 1991, Poland benefited from EBRD loans for a total amount of 113 MECU. In June 1992, the EBRD launched an equity subscription of 40 MECU in the Polish Private Equity Fund, a company to be established to invest in small and medium sized private enterprises.

d. Poland is entitled to ECSC loans in support of restructuring its coal and steel industries. So far it has received a 25 MECU loan.

3. Trade

a. Trade between the Community and Poland has increased substantially over the last two years. Total imports into the Community from Poland have increased by 53% since 1988 to just over 5.1 billion ECU in 1990. Exports from the Community to Poland increased by 59% between 1988 and 1990 to 4.4 billion ECU. The 1990 balance of 763 MECU was in favour of Poland.

In 1991 the Community became Poland's most important trade partner, buying about half of Poland's exports and supplying over one third of its imports. As a result, the 1,662 MECU trade balance turned in favour of the Community.

b. In the period January-September 1991, the Community imported from Poland mainly base metals and articles thereof: 18%; agricultural products, including processed agricultural products: 16%; textiles and textile articles: 14%; and mineral products: 11%.

The largest exports from the Community to Poland were machinery and electrical equipment: 24%; transport equipment: 15%; agricultural products including processed agricultural products: 14%; and chemical products: 10%.

HUNGARY

1. Agreements

a. A ten-year trade and economic cooperation agreement was signed on 26 September 1988. It entered into force on 1 December 1988. This non-preferential agreement also included the clause of reciprocal MFN (Most Favoured Nation) treatment and foresees the gradual liberalization by 1994 of quantitative restrictions applied by the Community on imports originating from Hungary. The agreement provides for cooperation aimed at the development and diversification of EC/Hungarian two-way trade. The agreement includes an ECSC protocol relating to trade and cooperation in coal and steel products which was signed in October 1991.

b. The Europe Agreement between the Community and Hungary was signed on 16 December 1991 and is in the process of ratification. In the meantime, the trade aspects have entered into force on 1 March 1992 by way of an Interim Agreement. The Europe Agreement will replace the trade and economic cooperation agreement of 1988.

c. The Community opened a Delegation in Budapest in November 1990. The Head of Delegation is Mr. Beck.

2. Assistance

a. Hungary has benefited from the Community's PHARE programme which was launched in 1989. Up to end 1991 PHARE projects for a total amount of 240 MECU were approved in support of actions in the areas of agriculture, environment, economic restructuring, human resources as well as social and financial sectors and small and medium sized enterprise development. The 1992 programme has an indicative budget of 100 MECU. In addition Hungary benefits from the PHARE projects destined for several Central European countries.

b. In order to help Hungary overcome its balance of payments difficulties, the Community has granted in 1990 and 1991 two loans with a total value of 1,050 MECU.

c. Since 1990, Hungary has also had access to loans from the European Investment Bank which are guaranteed by the European Community. The total value of the three loans approved by the EIB is 235 MECU and the money has been targeted at projects in telecommunications, energy and SMEs.

d. In 1991, Hungary benefited from EBRD interventions (loans or equities) for a total amount of 98 MECU.

e. Hungary has access to ECSC loans in support of restructuring its coal and steel sectors. An amount of 55 MECU has been earmarked to be shared between Hungary and Poland.

3. Trade

a. Total imports into the Community from Hungary have increased annually by 12% since 1986 to just over 2.9 billion ECU in 1990. Exports from the Community to Hungary have increased annually by 4% since 1986 to just under 2.9 billion ECU in 1990. However EC exports to Hungary were decreasing in 1990 (-4%). The balance of trade at the end of 1990 was 59 MECU in favour of Hungary. The Community became Hungary's most important trade partner in 1991, buying almost half of Hungary's exports and supplying over one third of its imports. End 1991, the balance of trade was 140 MECU in favour of Hungary.

b. The Community's main imports from Hungary in the period January-September 1991 consisted of agricultural products, including processed goods: 24%; textiles and textile articles: 16%; machinery and electrical equipment: 15%.

The largest exports from the Community to Hungary were machinery and electrical equipment: 28%; chemical products: 13%; and textiles and textile articles: 13%. Almost 60% of these textile exports will be reimported following processing in Hungary.

CZECH AND SLOVAK FEDERAL REPUBLIC (CSFR)

1. Agreements

- a.** An agreement between the CSFR and the Community on the trade of industrial products was signed on 19 December 1988.
- b.** A ten-year trade and economic cooperation agreement was signed on 7 May 1990. It came into effect on 1 November 1990. This non-preferential agreement also included the clause of reciprocal MFN (most favoured nation) treatment. It foresees the gradual liberalization by 1994 of quantitative restrictions applied by the Community on imports originating from the CSFR. The agreement provides for cooperation aimed at the development and diversification of EC/CSFR two-way trade. It covers industrial and agricultural goods. Trade in coal and steel products is governed by a ECSC protocol signed in February 1992.
- c.** The Europe Agreement with the CSFR was signed on 16 December 1991 and is in the process of ratification. In the meantime, the trade aspects have entered into force on 1 March 1992 by way of an Interim Agreement. The Europe Agreement will replace the trade and economic cooperation agreement of 1990.
- d.** A Commission Delegation has been opened in Prague. The Head of Delegation is Mr. Giunti.

2. Assistance

- a.** From September 1990, when the CSFR became eligible for PHARE funding by the Community, up to November 1991, some 10 PHARE projects for a total value of 133 MECU were approved for the CSFR. Priority areas include environment, training, energy, restructuring and the privatisation of state owned properties and development of SMEs as well as human resources development. In addition, Czechoslovakia benefits from the PHARE projects destined for several Central European countries. For 1992, the likely financial requirements total 96 MECU.
- b.** The Community extended in May 1991 a 375 MECU medium term loan in order to help support the CSFR's balance of payments.
- c.** The Community has agreed to extend its guarantee of EIB loans in Central and Eastern Europe to the CSFR, Bulgaria and Romania. The credit line for these three countries is 700 MECU over a 2 year period (1991-1992).
- d.** In 1991, the CSFR benefited from EBRD interventions (equities) for a total amount of 31 MECU.

e. Czechoslovakia is also eligible for ECSC loans in support of its coal and steel industries.

3. Trade

a. Total imports into the Community from the CSFR have increased by 22% since 1988 to almost 2.7 billion ECU in 1990. Total exports from the Community to the CSFR have increased by 17% since 1988 to just slightly over 2.6 billion ECU in 1990. The balance of trade at the end of 1990 was 81 MECU in favour of Czechoslovakia. The Community became Czechoslovakia's most important trade partner, with in 1991, buying over 40% of its exports and supplying about one third of its imports. The 245 MECU balance remains in Czechoslovakia's favour.

b. The Community's most important imports from the CSFR in the period January-September 1991 were base metals and articles of base metals: 15%; textiles and textile articles: 12%; machinery and electrical equipment: 11%; and transport equipment: 10%.

The largest exports from the Community to the CSFR were machinery and electrical equipment: 37%; transport equipment: 11%; and chemical products: 10%.

BULGARIA

1. Agreements

a. The ten-year trade and economic cooperation agreement between the Community and Bulgaria was signed on 24 September 1990 and came into force on 1 November 1990. The first meeting of the Joint Committee was held in Sofia on 30 November 1990.

A ECSC protocol on trade and cooperation in coal and steel products is in preparation.

b. Since 1 January 1991, the Community extended its GSP (Generalised System of trade Preferences) to imports from Bulgaria, and eliminated or suspended the quantitative restrictions it applied on imports from Bulgaria.

c. Negotiations with Bulgaria with a view to concluding a Europe Agreement started on 14 May 1992.

d. A Commission Delegation was opened in Sofia in June 1992. The Head of Delegation is Mr. O'Sullivan.

2. Assistance

a. In September 1990, the Community's PHARE programme was extended to Bulgaria. Up to November 1991 some 11 PHARE projects for a total amount of 100 MECU were approved in agriculture, environment, health, energy, economic restructuring, and human resources development. Total allocations of PHARE funds to Bulgaria in 1992 Indicative Programme is foreseen to be 90 MECU. In addition Bulgaria benefits from the PHARE projects destined for several Central European countries. Bulgaria also received together with Romania part of 100 MECU humanitarian aid programme in the form of emergency food and medical aid.

b. The Community decided in June 1991 to extend a 290 MECU loan to Bulgaria in support of its balance of payments, as part of a coordinated effort within the G-24. A first instalment of 150 MECU was disbursed in July 1991; a second instalment is expected to be paid soon. On 5 June 1992 the Commission proposed to the Council a decision on additional financial assistance for Bulgaria (110 MECU medium-term loan).

c. The Community has extended its guarantee of EIB loans in Central and Eastern Europe to include Bulgaria. The credit line for Bulgaria, Romania and Czechoslovakia together is 700 MECU over the two years 1991-1992.

d. Bulgaria is also eligible for loans from the European Coal and Steel Community (ECSC) in support of its coal and steel industries.

3. Trade

a. Total imports into the Community from Bulgaria have increased by 26% since 1988 to almost 0.6 billion ECU in 1990. Total exports from the Community to Bulgaria have decreased by 35% since 1988 to 0.9 billion ECU in 1990. The balance of trade at the end of 1990 was 317 MECU in favour of the EC. In 1991, EC imports from Bulgaria increased significantly by 29%, while our exports grew 15%, thus further diminishing the EC trade surplus to 281 MECU.

b. The largest imports into the Community from Bulgaria in the period January-September 1991 were: agricultural products including those already processed 25%; textiles and textile articles: 15%; and base metals and products of base metals: 13%.

The largest exports from the Community to Bulgaria were machinery and electrical equipment: 26%; transport equipment: 17%; and agricultural products, including those already processed: 16%.

c. The Council authorised the European Commission in early October to negotiate with Bulgaria the amending of the textile agreements in force. The EC is willing to increase up to 8% the quota allotted to Bulgaria, for products covered by the Multifibre Arrangement.

ROMANIA

1. Agreements

a. Since 1974 Romania has benefited from GSP treatment and in 1980 an agreement was signed concerning trade of industrial products. This 1980 agreement was to have been replaced by an agreement of greater scope. However negotiations on this were suspended in April 1989.

b. Community relations with Romania were reactivated after the revolution of December 1990 and a trade and economic cooperation agreement was concluded on 5 March 1991, and entered into force on 1 May 1991.

An ECSC protocol relating to trade and cooperation in coal and steel products was initialled in December 1991.

c. Negotiations with Romania with a view to concluding a Europe Agreement started in spring 1992.

d. The Council authorized the European Commission in October 1991 to negotiate with Romania the amending of the textile agreements already in force, offering an increase in the import quota for products covered by the Multifibre Arrangement.

2. Assistance

a. The Community's PHARE programme was extended to Romania in September 1990 but was suspended until January 1991 for political reasons. Until November 1991, 6 PHARE projects for a total amount of 100 MECU were approved, providing assistance in the area of general technical assistance and human resources as well as some sectoral programmes concerning imports and healthcare. On 31 January 1992 a 1992 Indicative Programme of 130 MECU for PHARE assistance to Romania was signed. Romania also benefits from the PHARE projects destined for several Central European countries.

b. Before its full inclusion in the PHARE programme, Romania received 60 MECU worth of humanitarian and emergency aid in 1990. Of this, 11 MECU was for medical aid, 41 MECU for agriculture and 7 MECU for orphanages and Romanian children.

The European Council of 14 and 15 December 1990 decided on new emergency aid equalling 100 MECU to be shared by Romania and Bulgaria. 80 MECU of this is allocated to food aid and 20 MECU supplied by PHARE to medical aid.

c. In order to help Romania overcome its balance of payments difficulties the Community and Romania signed in November 1991 an agreement for a 375 MECU loan. A first instalment of 190 MECU has been disbursed. On 5 June 1992 the Commission proposed the Council to decide on an additional financial assistance for Romania (medium-term loan of 80 MECU).

- d. The Community has extended its guarantee of EIB loans in Central and Eastern Europe to Romania. So far a loan of 25 MECU has been approved in favour of the electricity company.
- e. In 1991, Romania benefited from EBRD loans for a total amount of 165 MECU.
- f. Romania can also obtain ECSC loans in support of its coal and steel sectors.

3. Trade

- a. Total imports into the Community from Romania have decreased by 29% since 1988 to 1.4 billion ECU in 1991. Exports from the Community to Romania have almost doubled to 1.3 billion ECU in 1991. The trade balance in 1991 was 137 MECU in favour of Romania.
- b. The largest imports into the Community from Romania in the period January-September 1991 were: textiles and textile articles: 25%; mineral products: 19%; base metals and articles of base metals: 9%.

The largest exports from the Community to Romania were: machinery and electrical equipment: 21%; agricultural products including processed products: 20%; and textiles and textile articles: 16%. Almost 80% of these textile exports will be re-imported into the Community following processing in Romania.

ALBANIA

1. Agreements

- a. In February 1991, the Commission received official requests from Albania for the establishment of diplomatic relations, the negotiation of a trade and cooperation agreement, and for food aid.
- b. Multiparty elections took place for the first time in Albania on March 31 1991 with some EC Member States sending observers. This led to official relations being established between the EC and Albania; the Albanian Deputy Prime Minister on June 24 visited the Commission.
- c. On 20 June 1991, Albania was welcomed as the 35th member of the CSCE (Conference for Security and Cooperation in Europe).
- d. In October the Council authorized the Commission to negotiate a trade and cooperation agreement with Albania, which was signed on 11.5.1992.

2. Assistance

- a.** EC emergency aid to Albania in 1991 totaled 19 MECU comprising humanitarian and medical assistance (1.5 MECU), food aid (15 MECU), emergency relief (1 MECU), and aid to refugees in Greece and Italy (1.5 MECU). In June 1992 the Council decided on additional food aid for 45 MECU.
- b.** The G-24 countries decided in September to extend their coordination assistance to Albania, which from January 1992 is also eligible for PHARE aid. From the 1991 PHARE budget it received already 24 MECU.
- c.** On October 29 Albania became a member of the EBRD (European Bank for Reconstruction and Development). Until end 1991, it already benefited from EBRD's intervention in bank restructuring techniques.

3. Trade

- a.** In 1990 the Community imported 80.7 MECU worth of goods from Albania and total exports to that country amounted to 117.8 MECU. In 1991 these figures were 35 MECU (imports) and 78 MECU (exports).
- b.** On March 11, 1991 the Commission approved the liberalization of several Albanian imports from Italy, (chemicals, leather and fur, glass products...) with immediate effect.
- c.** 1 January 1992 the EC removed all quotas on imports from Albania, except for textiles and some agricultural goods.
- d.** The Council decided on 3.2.1992 to include Albania in the generalized system of preferences.
- e.** The largest imports into the Community from Albania in 1990 were chrome, nickel, medicinal plants and refined oil. The principal Community export products to Albania were food products, oils (such as sunflower), tobacco, thin iron sheets and carded cotton.

THE BALTIC STATES

1. Agreements

a. In September 1991 the European Community announced its intention to negotiate trade and cooperation agreements with Estonia, Latvia and Lithuania.

b. Directives were for trade and cooperation agreements between the EC and each of the Baltic States approved by the EC Council of Ministers in November 1991. The three agreements were signed in Brussels on 11 May 1992. They are regarded as "first generation" agreements, given the present situation in the Baltic States, but with the possibility of replacing them later with European (association) agreements. The agreement with Lithuania (the only Baltic State with nuclear facilities) also covers relations with EURATOM.

During a visit by EP members in early November 1991, Lithuanian President Landsbergis stated he considered a form of association with the EC to be the logical course to industrial reorganisation and diversification of trade.

c. The Community's delegation in Stockholm was also accredited to Estonia and Latvia at end April and will be accredited to Lithuania in due course.

2. Assistance

a. The Council decided in early October that the three Baltic States would remain beneficiaries of the Programme of technical assistance to the USSR until end 1991, with 15 MECU reserved for them. Latvia, Estonia and Lithuania have become beneficiaries of the PHARE programme from January 1992. PHARE assistance for these countries amounts to 45 MECU in 1992.

b. Possibilities of balance of payment assistance will be examined in connection with international financial institutions. The EC is already supporting membership of the three Baltic States in the IMF and the World Bank in the near future.

c. Food aid to the value of 45 MECU commenced on 4 February 1992 with several deliveries to Estonia.

3. Trade

a. Since January 1992, the Baltic republics are among the beneficiaries of the Community generalised system of preferences.

b. In mid-October 1991, six weeks after independence, Lithuania, Latvia and Estonia declared their intention to create a Baltic States Common Market at the earliest opportunity. They have agreed on the creation of a free trade zone with no customs duties, the eventual objective being no controls on goods at their frontiers. The three countries intend to establish their own currencies and Estonia expects to do so very shortly.

c. The Baltic States, which are seeking a certain division of labour among them, also signed in October a "charter of Development Strategy". A more specific division will be difficult due to the transition from a centralized economy to a market economy. At present, the Baltics export over 60% of their net production to the C.I.S. republics and depend on the former USSR for energy supplies, raw materials and spare parts.

YUGOSLAVIA

1. Agreements - Recognition of independent republics

Official EC relations with Yugoslavia began with the signature of a non-preferential agreement in 1970, followed by an updated agreement in 1973, later completed by an additional clause covering progressive cooperation in the development field. Following this strengthening of ties, a cooperation agreement was concluded in 1980 for an indefinite period. This agreement which grants preferential treatment for trade, includes detailed clauses on economic, technical, financial and social cooperation. A Commission Delegation was opened in Belgrade at the end of 1980. The Head of Delegation is Mr. Janssens.

In view of the present civil war in Yugoslavia the EC Council of Ministers decided on November 11, 1991 to suspend and denounce the application of the agreement with Yugoslavia; assistance under the PHARE programme has also been blocked. On December 2 the Ministers agreed that trade preferences equivalent to those in the suspended agreement, and PHARE assistance, would be made available to the 4 Yugoslav republics of Bosnia-Herzegovina, Macedonia, Slovenia and Croatia.

The Community now applies full economic sanctions against Serbia and Montenegro in line with the UN Security Council Resolution 757.

2. Assistance

A EC loan finance has been made available under a protocol to the cooperation agreement, and Yugoslavia became eligible for economic assistance in autumn 1991, receiving PHARE grants totalling 35 MECU that year to support the restructuring of enterprises and the financial sector.

In 1991 political developments have made it impossible to continue cooperation under the PHARE programme, no grants have therefore been made since then. Between September 1991 and June 1992, the EC has granted the republics of former Yugoslavia (with the exception of Serbia and Montenegro) an emergency aid of 49 MECU, of which 29 MECU have already been spent.

3. Trade

During the last 5 years, EC-Yugoslavia trade has been expanding continuously. EC imports rose from 4.9 billion ECU in 1986 to 7.7 billion in 1990 (+ 57%), of which manufactured goods represented 57%, machinery and transportation equipment 21%, foodstuffs and tobacco 6%. EC exports increased from 5.8 billion ECU in 1986 to 8.5 billion in 1990 (+ 45%), of which manufactured goods represented 39%, machinery and transportation equipment 35% and chemical products 13%. For the first 9 months of 1991, imports reached 5.8 billion ECU (+ 1.5% as compared to the first 9 months of 1990), and exports amounted to 5.3 billion ECU (- 12%).

SLOVANIA

Slovenia was recognized on January 15, 1992. Early March 1992 the Commission started talks on an agreement, similar to the cooperation agreement EC/Yugoslavia of 1981, with a possible clause to come to an Europe Agreement, as Slovenia asked for. At the end of May negotiation directives were proposed to the Council. If the Commission receives a mandate negotiations could lead to initialling an agreement before August 92. That agreement could come into force by 1.1.1993.

CROATIA

Croatia was recognized as an independent republic on January 15, 1992. After a meeting between EC President Delors and the Croatia President Tudjman on 6 May 1992 the Commission planned to send an exploratory mission to Zagreb, but has postponed it because of the Croatian military involvement in Bosnia.

BOSNIA - HERZEGOVINA

Bosnia-Herzegovina was recognized on 7.4.1992. President Delors has written to Bosnian President Izetbegovic about the Commission's willingness to strengthen relations, and invited a government representative to discuss the establishment of contractual relations.

MACEDONIA

The recognition of Macedonia is still under discussion. The EC has accepted the principle of recognizing the republic, but first wants to solve the denomination problem.

II. Community relations with the independent States of C.I.S.

1. Agreements

A ten-year trade and economic cooperation agreement was signed in December 1989. Economic cooperation aimed at strengthening and diversifying economic ties between the two sides and encouraging economic operators, promoting investment and encouraging joint ventures, licensing agreements and other forms of industrial cooperation. The areas of economic cooperation included mining, agriculture, environmental protection, energy and the service industries (banking, insurance, transport, etc.). EURATOM was a party to this agreement, given the EC's close interest in matters relating to nuclear research and safety in the USSR.

At the end of 1990 the EC and the USSR had planned to renegotiate and broaden the agreement, but these talks could not begin due to the events in 1991, which resulted in the disintegration of the USSR as such, and its replacement in December 1991 by a Commonwealth of Independent States (C.I.S), formed by eleven former Republics of the Union, with the exception of Georgia. This wholly new situation has incited the Commission to envisage a new type of agreement, somewhere in between the normal trade and economic cooperation agreement and the Association or Europe agreements signed with Poland, Hungary and CSFR.

The Commission plans to submit to the Council in July directives with a view to negotiating new agreements with the 12 states. The Council should decide in the autumn so that negotiations can begin soon afterwards.

2. Assistance

The EC agreed in principle in late 1990 to provide assistance to the USSR, although at various stages during 1991 part of this was blocked as a consequence of political uncertainties there.

Food aid to a value of 250 MECU was approved in March 1991. Deliveries began in June and have been largely completed; the food is for the most deprived sectors of the Soviet population, and internal distribution is mainly in hands of non-governmental organisations. A further 200 MECU of food aid was decided in December 1991 by the Maastricht European Council for urgent delivery to Moscow and St. Petersburg. But food aid should not become a systematic feature of the Community's support for the independent states. It should be replaced, to the greatest extent possible, by commercial operations to reestablish trade flows and to strengthen the market mechanism. In addition the EC has provided a guarantee of a loan of 500 MECU taken by a Soviet bank from a consortium of EC banks, and approved an EC loan of 1,250 MECU.

The money made available will be used to buy food supplies and medical products from the Community and the countries of Central and Eastern Europe, including the Baltics. The total amounts thus to 2,000 MECU, as the EC contribution to a total food and medical aid package of around 6,000 MECU from the G-7 group of industrialised countries.

The Community also provided 400 MECU for technical assistance under the 1991 EC Technical Assistance Programme, mainly in the fields of training, transport, food distribution, energy and financial services. A technical assistance budget of 450 MECU is provided for 1992. Building on the five priority areas identified under the 1991 programme, the Commission aims to provide assistance under the 1992 programme in several additional fields, namely food production, telecommunications and the conversion of defence-related industries.

During 1991, the USSR benefited from EBRD interventions for a total amount of 20,7 MECU, of which 14 MECU in loans and 6,7 MECU in the framework of technical assistance. The EBRD approved on 27 May 1992 a strategy for the Bank's operations in the Russian Federation. The strategy places priority in the areas of privatization and enterprise promotion, military conversion, financial sector development, energy, nuclear safety, agriculture and agro-business. The total commitment of the Bank in the framework of technical assistance was 17 MECU by the end of March 1992. On 29 May 1992 the Board of Directors has recommended to the Bank's Governors that they approve Georgia's participation in the Bank. All other countries previously forming the USSR were accepted in early 1992. Coordination of aid for the newly independent states: the Portuguese Presidency hosted the Lisbon conference in May 1992, follow-up of the January Washington conference, where the Community, as by far the largest donor, played an important part. The Commission coordinated the preparatory work in the five substantive areas: food, shelter, medicines, energy and technical assistance.

In its conclusions, the Presidency gave the guidelines for aid in the future, underscoring following aspects: the need for the new States to develop their capacity to meet their food requirements (while recognising that humanitarian aid is still needed); the key role of technical assistance; the usefulness of triangular operations (notably with Central and Eastern European countries); the priority nature of nuclear safety; and specific cooperation with the EC.

It should be recalled that on 2 March the EC Council of Ministers confirmed its will to contribute to the political, economic and social stability of the republics, and its support for prompt membership of the republics which have applied to the Bretton Woods monetary institutions. It requested the Ecofin Council to examine the possibilities of a more flexible application of the conditions of the mid-term loan of 1,250 MECU to the republics, confirmed the Community's participation in the International Centre for Science and Technology, aimed at slowing the nuclear "brain drain", on the basis of an appropriate financial contribution, to be proposed soon by the Commission.

3. Trade

In 1991, EC imports from the Soviet Union reached 18.5 billion ECU. The main items were: energy products (8.7 billion), manufactured goods (2.4 billion), mineral products (1.27 billion), and chemical products (0.75 billion); EC exports to the Soviet Union reached 14.4 billion ECU, resulting in a deficit of 4 billion ECU for the Community. The main items were machinery and transportation equipment (7 billion), manufactured goods (2.7 billion), foodstuffs (1.9 billion), and chemical products (1.4 billion).

USSR exports to EC increased by 14.3% in 1991, because of Germany's reunification. Excluding the corresponding flow to East-Germany, USSR exports decreased by 7%. The main industrial products imported in EC from former USSR are petroleum, gaz, wood, gold, diamonds, aluminium, nickel, cars, cotton, copper, etc.

4. The Community opened a Delegation in Moscow in 1991; the Head of Delegation is Mr. Emerson. The possibility of establishing a Delegation in the capitals of certain other states is being actively examined.

TRADE AND COOPERATION AGREEMENTS

The acceptance in 1986 by the USSR and the Central and East European countries that they all could deal bilaterally with the EC opened the way for the Community to negotiate general agreements with these countries. Before then, only sectoral trade arrangements existed with some of them. An exception was Romania, which concluded a trade agreement with the EEC in 1980. Mutual recognition between the European Community and the Council for Mutual Economic Assistance - CMEA (COMECON) was formalised in June 1988 with the signing of the EC-CMEA Joint Declaration.

Within the two years following this Joint Declaration, the EC concluded bilateral agreements for trade, commercial and economic cooperation with Hungary, Poland, the Czech and Slovak Republic, the USSR, Bulgaria and Romania.

Trade and commercial and economic cooperation agreements aim at a substantial and harmonious development and diversification of trade and at the promotion of commercial and economic cooperation in areas of mutual interest. They are based on principles of equality, non-discrimination and reciprocity. They are specific for each country and include:

- trade provisions aiming at promoting mutual trade, including most-favoured nation treatment, mutual trade concessions, the lifting of the Community's specific quantitative restrictions on imports from the partner countries and provisions for possible further trade liberalisation;
- commercial cooperation provisions concerning exchanges of commercial and economic information, contacts between business and professional associations, cooperation between customs departments and the promotion of investment;
- economic cooperation in areas of industry, mining, agriculture, energy, research, environment, financial services, training, standards, statistics, and other matters of common interest;
- the establishment of a joint committee as a forum for regular consultation.

These agreements thus allow for normal development of the commercial and economic relations between the European Community and the Central and Eastern European countries.

Negotiations for similar agreements with Albania and with the three Baltic countries are to begin shortly.

Annex 2

European agreements with CZECHOSLOVAKIA, HUNGARY and POLAND(1)

These are joint agreements which have an indefinite period of validity and cover Community and national spheres of competence. For the first time, in addition to the aspects concerning commercial and economic cooperation, the political dialogue dimension and a cultural cooperation component are taken into account. The agreements also provide for the setting-up, at a later stage, of a free trade area. They are geared to the possibility of these three countries' future membership of the Community. In the preamble to the agreements, the parties recognize that the ultimate objective of the associated countries is to become members of the Community, and association should help them attain this objective.

The agreements have an identical structure for all three countries and the main aspects are listed below.

Political dialogue. It introduces and institutionalizes regular meetings at the highest political level on all topics of common interest and is aimed at achieving convergence in the parties' positions on foreign policy matters.

General principles. The transitional period is ten years broken down into two stages of five years each. The breakdown into two stages does not apply, however, to the trade component of the agreement (free movement of goods). Reference is also made to the process of establishing a market economy in the associated countries.

Free movement of goods. The agreements are preferential and aimed at establishing free trade arrangements between the Community and Czechoslovakia, Hungary and Poland. The concessions granted for liberalizing trade in industrial product are reciprocal but weighted in favour of the three countries, which generally have a longer period than the Community for liberalizing their markets.

Certain sensitive products form the subject of special protocols, in particular textiles and ECSC products. Textile products will be liberalized by the Community in accordance with a special timetable which is nevertheless in line with this general dismantling of industrial tariffs. Similarly, reciprocal concessions are made for processed agricultural products, agriculture and fisheries. The rules on origin and customs cooperation are also dealt with in separate protocols. There are special safeguard clauses for the three countries (balance of payments and infant industries).

Movement of workers, establishment and services. With regard to workers, the Agreements are aimed primarily at improving the situation of workers legally established in the Community. With regard to the right of establishment, the agreements provide for full application of national treatment for the establishment and operations of all firms and all professions throughout the Community and Czechoslovakia, Hungary and Poland.

(1) Similar agreements are currently being negotiated with Bulgaria and Romania.

National treatment will be granted by the Community as soon as the agreements enter into force and there will be transitional periods for the application of this principle by the three countries. National treatment will also apply fully to public procurement.

Payments and capital, competition, approximation of legislation. Freedom of financial transfers arising from commercial transactions, the provision of services, investment operations, repatriation of capital invested and the gains from this capital, and also from the movement of persons, is guaranteed.

Rules on competition based on the Community's rules are to be applied. The three associated countries will endeavour to adapt their legislation to Community legislation.

Progressive approximation of legislation is one of the prerequisites for the successful economic integration of the associated countries into the Community.

Economic cooperation covers all the sectors in which the Community and the associated countries have a mutual interest (industrial cooperation, investment promotion and protection, standards, scientific and technological cooperation, training and education, cooperation on social affairs, regional development, small and medium-sized enterprises, statistical cooperation, money laundering, drugs, environment, transport, telecommunications, etc.). One of the objectives of economic cooperation is to enable the three associated countries to meet the challenge of restructuring their economies and making them competitive by the end of the transitional period.

Promotion of cultural cooperation.

Financial cooperation. The associated countries will be able to receive grants (under PHARE until the end of 1992, and under PHARE or a new multiannual framework after that) and loans from the European Investment Bank. In certain circumstances, the Community may be able to examine the possibility of granting macroeconomic financial assistance.

The final provisions provide for an association council, which will meet at ministerial level at least once a year. It will ensure that the agreement is implemented and may in certain spheres take decisions binding the parties. An association parliamentary committee, which has an advisory role, has also been set up.

Before they can be concluded, the European agreements will have to be ratified by the parliaments of the three associated countries and of the Member States and obtain the assent of the European Parliament in accordance with Article 238 of the EEC Treaty. Interim agreements relating only to those parts of the agreements which come solely under the Community's powers and require a shorter procedure, have come into effect on 1 March 1992.